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NATIONAL INTELLIGENCE DAILY CABLE

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EGYPT-CYPRUS: Relations Broken

[ ] Egypt announced yesterday the breaking of relations with Cyprus and hinted at the possibility of further retaliation for the killing of Egyptian commandos at Larnaca airport on Sunday. President Sadat is bitter over Cypriot President Kyprianou's "treachery," while those of his advisers who were associated with planning the ill-fated commando raid reportedly are trying to mask their own bungling.

[ ] President Sadat expressed his personal bitterness to Ambassador Eilts yesterday at the funeral for the 15 Egyptian commandos killed in the Larnaca incident. Sadat directed his harshest remarks at President Kyprianou and raised the question of collusion with the terrorists.

[ ] Sadat asserted that Cypriot leaders had shirked their responsibility to oppose international terrorism and as a result had squandered Egypt's traditional support for Greek Cypriots against Turkey. Such support, he said, could not be expected to continue. Other Egyptian officials have hinted that Egypt might now be disposed to shift its support to Turkey in the dispute over Cyprus.

[ ] The test of Cypriot intentions, according to Sadat, is disposition of the two Palestinian terrorists. He again argued for extradition, but for the first time indicated he would be satisfied if Cyprus itself applied appropriate punishment directly.

[ ] In the past, the Greek Cypriots have generally been lax in their treatment of terrorists. Egyptian pressure, along with the Cypriots' desire to retain Cairo's support against the Turks, will probably prompt sterner handling of terrorists in custody. There is at least a slight chance Nicosia might recant and extradite the terrorists, especially if Egyptian pressure remains intense. Greece, meanwhile, continues its effort to mediate the Egyptian-Cypriot dispute. The Greek Ambassador to Cairo met yesterday with Deputy Foreign Minister Ghali to discuss the situation.

[ ] Prime Minister Salim admitted to Ambassador Eilts yesterday that he, in fact, had not specified to Cypriot officials that the Egyptian plane carried commandos when he sought flight clearances. He insisted, nevertheless, that the Cypriots understood Egypt's intentions.

[ ] Sadat's anger toward Cypriot officials remains. Sadat told a meeting of those who had participated in the airport attack that Cypriot forces should not have opened fire even if permission had not been granted for the Egyptian operation.

[ ] Public anger against Palestinians is running high, probably fanned by press reports that members of the Palestine Liberation Organization participated in the fighting against the Egyptian commandos. Despite PLO denials, we do have evidence to suggest PLO involvement, perhaps inadvertent, on the side of Cypriot National Guard units.

[ ] Near the end of the firefight between the Cypriots and Egyptians on Sunday, US Embassy officials observed plain-clothes, Arab-speaking personnel, presumably the PLO contingent, mingling with Cypriot National Guard troops near the terminal building at Larnaca. An embassy contact, moreover, claimed that the Cypriot firing had been "abetted" by the PLO squad.

[ ] In view of Arafat's continuing efforts to keep open his lines to the Egyptians, it is unlikely he would have authorized the Fatah group to participate in the fighting against the Egyptians. It is possible, however, that they were drawn into the fighting simply because of their presence on the scene at the time. [ ]

#### ISRAEL: Settlement Politics

[ ] *The Israeli Cabinet continues to try to resolve its policy differences on future settlements, but it may be unable to reach an agreed position when the cabinet addresses the settlements question again this weekend. The US Embassy in Tel Aviv believes that even if a policy decision is made, it will not be made public. Whether Prime Minister Begin decides in favor of proceeding with settlement activity, a general standstill, or some middle course, the cabinet dissension that emerged during last Monday's special session is likely to continue to bedevil him.*

[ ] This week's first of two special cabinet debates on settlement policy--the second will be on Sunday--has brought these divisions more sharply into focus. Defense Minister

[ ]  
Weizman has emerged as the chief spokesman for a more flexible approach to negotiations, with Agriculture Minister Sharon the leader of hard-liners in the cabinet on the settlements question.

[ ] Weizman, the leaders of the Democratic Movement for Change, and the Liberal faction of Likud clearly favor a freeze on settlement activity pending the outcome of negotiations with Egypt. In pressing for a moratorium, they hope to improve the atmosphere for talks with the Egyptians and undo some of the damage that has been done to Israel's image abroad, especially in the US.

[ ] Sharon, National Religious Party leader Hammer, and hawks in the Laam faction of Likud, on the other hand, want to accelerate the settlement process in the Sinai and on the West Bank as a hedge against any softening in the government's negotiating position. Foreign Minister Dayan is probably closer to Sharon than to Weizman on this issue.

[ ] Begin, whose views will be decisive, thus faces sharply divergent pressures. If he orders a standstill, Sharon could threaten to bolt the cabinet, splitting Begin's supporters on the right. But if Begin supports a resumption of settlement activity, it will complicate his relations with coalition moderates. Weizman and the Liberals, while unhappy, would not oppose Begin openly, but leaders of the Democratic Movement for Change would be under strong pressure from doves in their own party to challenge the government and even drop out of the coalition.

[ ] Begin can hardly be unaware that his government's clumsy handling of the settlements issue has already seriously complicated peace negotiations and hurt his own credibility both at home and abroad.

[ ] Thus far, the Prime Minister has reserved his position, although there have been Israeli press reports that he may be leaning toward supporting a temporary freeze on new settlement activity for tactical reasons. To avoid the appearance of giving in to outside pressure and to mollify Sharon, however, Begin may try to buy time by simply extending the present suspension on settlement activity in the Sinai at least until after his meeting with President Carter in mid-March. Begin may allow completion of settlement activity already under way on the West Bank. [ ]